



Detroit Housing Commission, Detroit, MI

Section 8 Moderate Rehabilitation Program



To: Douglas Gordon, Director of Public Housing Hub, 5FPH

//signed//

From: Kelly Anderson, Regional Inspector General for Audit, Chicago Region, 5AGA

Subject: The Detroit Housing Commission, Detroit, MI, Did Not Always Manage Its Program Projects in Accordance With HUD's Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Detroit Housing Commission's Section 8 Moderate Rehabilitation Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (312) 353-7832.



Audit Report Number: 2015-CH-1002

Date: August 26, 2015

The Detroit Housing Commission, Detroit, MI, Did Not Always Manage Its Program Projects in Accordance With HUD's Requirements

Highlights

What We Audited and Why

We audited the Detroit Housing Commission's Section 8 Moderate Rehabilitation Program as part of the activities in our fiscal year 2015 annual audit plan. We selected the Commission based upon a citizen's complaint alleging mismanagement in the administration of the Commission's former program projects, Colony Arms and Fisher Arms Apartments. Our audit objectives were to determine whether the Commission appropriately (1) maintained required program eligibility documentation and a waiting list to select applicants for housing and (2) recaptured overpaid housing assistance after households were terminated from the program or moved out of assisted units.

What We Found

The complainant's allegation of mismanagement in the administration of the Commission's former program projects was partially valid. The Commission appropriately determined households' program eligibility; however, it did not maintain a waiting list or use its Section 8 program waiting list to refer applicants to the projects' owner or management agent for housing. In addition, our testing identified one additional issue with the Commission's operation of its program. Specifically, the Commission did not always recapture overpaid housing assistance after households were terminated from the program or moved out of assisted units. As a result, the Commission and the U.S. Department of Housing and Urban Development (HUD) lacked assurance that applicants were properly selected to reside in an assisted unit in the projects. Further, the Commission overpaid nearly \$101,000 in housing assistance.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Public and Indian Housing determine whether the households residing in the projects' assisted units received housing in accordance with the program's requirements and if not, consider a referral to HUD's Office of Fair Housing and Equal Opportunity. We also recommend that HUD require the Commission to (1) reimburse HUD nearly \$101,000 from non-Federal funds for the overpayment of housing assistance and (2) implement adequate controls to address the findings cited in this audit report.

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Background and Objectives

The Detroit Housing Commission is a public housing agency created by the City of Detroit, MI, in 1933 under the Michigan Housing Facilities Act. The Commission is governed by a five-member board of commissioners appointed by the mayor. The board's responsibilities include performing the duties and functions prescribed by the Commission's bylaws and any other duties or functions established by the Commission. The executive director is responsible for administering the Commission's affairs according to the board's operational, fiscal, and personnel policies.

In July 2005, the U.S. Department of Housing and Urban Development (HUD) assumed control of the Commission and placed it under administrative receivership as a result of unauditible financial records, the distressed physical condition of housing units, regulatory compliance deficiencies, and HOPE VI grants that were in default for lack of progress with redevelopment projects. On March 16, 2015, HUD returned the Commission from administrative receivership to the City of Detroit.

The Commission administers the Section 8 Moderate Rehabilitation Program funded by HUD. The program provides project-based Section 8 rental assistance for low-income families. The program was repealed in 1991, and no new projects were authorized for development. Therefore, housing assistance was limited to properties that were under a housing assistance payments contract between an owner and a public housing agency before the repeal. As of March 2015, the Commission had program housing assistance payments contracts with 5 projects consisting of 144 assisted units. In fiscal year 2015, the Commission was authorized to receive more than \$1.3 million in program funds.

Colony Arms and Fisher Arms Apartments are two former Section 8 Moderate Rehabilitation Program projects comprised of two buildings containing 81 and 80 units, respectively, for a total of 161 units. The Commission paid more than \$1.9 million in housing assistance to the projects' owner from July 2012 through December 2014. On December 31, 2014, the projects' project-based Section 8 housing assistance payments contracts with the Commission were terminated. As of January 1, 2015, the projects were receiving multifamily Section 8 housing assistance.

Our audit objectives were to determine whether the Commission appropriately (1) maintained required program eligibility documentation and a waiting list to select applicants for housing and (2) recaptured overpaid housing assistance after households were terminated from the program or moved out of assisted units.

Results of Audit

Finding: The Commission Did Not Always Manage Its Program Projects in Accordance With HUD's Requirements

The Commission did not always manage its program projects in accordance with HUD's requirements. Specifically, it appropriately determined households' program eligibility but did not maintain a waiting list or use its Section 8 program waiting list to refer applicants to the projects' owner or management agent for housing. Further, the Commission did not always recapture overpaid housing assistance after households were terminated from the program or moved out of assisted units. The weaknesses occurred because the Commission lacked adequate procedures and controls to ensure that it complied with HUD's requirements. As a result, the Commission and HUD lacked assurance that applicants were properly selected to reside in an assisted unit in the projects. Further, the Commission overpaid nearly \$101,000 in housing assistance.

The Commission Maintained Documentation To Support Household Program Eligibility

We reviewed 29 of the Commission's household files to determine whether the Commission maintained the required documentation to support the households' eligibility for admission into its former program projects. Of the 29 household files reviewed, all the households were eligible to receive housing assistance.

The Commission Did Not Maintain a Program Project Waiting List

Contrary to 24 Code of Federal Regulations (CFR) 882.513(b), the Commission did not maintain a program project waiting list or use its Section 8 program waiting list to refer applicants to the program projects' owner for housing. Instead, it relied on the owner or management agent of the program projects to maintain a waiting list and select applicants to receive assisted housing. Further, the Commission did not ensure that the households were appropriately selected from the projects' waiting list in accordance with HUD's requirements.¹

The Commission Failed To Capture Overpaid Housing Assistance

We reviewed 53² households' housing assistance payments to determine whether the Commission appropriately recaptured overpaid housing assistance after households (1) moved out of assisted units or (2) were terminated from the program, deceased, or incarcerated. The Commission continued to pay housing assistance

¹24 CFR 882.514(b)

² Our methodology for this sample is explained in the Scope and Methodology section of this audit report.

- For 43 households between 1 and 15 months after the households moved out of their assisted units,
- For 7 households between 1 and 9 months after the households were terminated from the program for noncompliance,
- For 2 households between 2 and 6 months after the head of household passed away, and
- For 1 household for 6 months while the head of household was incarcerated.

As a result, the Commission overpaid \$100,507 in housing assistance to the projects' owner.³ The Commission failed to recapture the inappropriately paid housing assistance from the owner after it received notification from the projects' management agent or became aware that the households no longer resided in the assisted units.

In accordance with 24 CFR 982.152(d), HUD is permitted to reduce or offset any program administrative fees paid to a public housing agency if it fails to perform its administrative responsibilities adequately under the program. The Commission received \$11,254 in program administrative fees related to the inappropriate housing assistance for the 53 program households after the households left the program.

The Commission Lacked Adequate Procedures and Controls

The Commission lacked adequate procedures and controls to ensure that it complied with HUD's requirements regarding a waiting list. According to the Commission's executive director, the Commission had to address continuous complaints regarding the former projects, which had prevented it from examining the waiting list process. Further, the executive director believed that at some point, the projects' owner had complained about the number of days units were vacant. Therefore, in an attempt to speed up the leasing process, the Commission began having the applicants go directly to the projects' management agent rather than the Commission. This practice resulted in confusion as to whether the Commission or the projects' owner or management agent was responsible for maintaining the waiting list.

The Commission also lacked adequate procedures and controls for monitoring the projects' owner or management agent and recapturing overpaid housing assistance. According to the Commission's former deputy executive director, contrary to its contract,⁴ the owner or management agent did not always (1) notify the Commission in a timely manner when households moved out of assisted units and (2) return the overpaid housing assistance. However, when the Commission started receiving complaints regarding the projects, it decided to validate the amount of housing assistance paid to the projects' owner. The Commission attempted to obtain the projects' rent rolls but did not always receive them in a timely manner. For example, in February 2014, the Commission had just received the former projects' rent rolls from 2013, and when it compared the rent roll to its records, it identified that housing assistance was being

³ The payments were not considered vacancy payments in accordance with 24 CFR 882.411.

⁴ Section 1.5(f)(2)(ii) of the owner's contract with the Commission.

paid for 22 vacant units. The Commission recaptured \$151,526 in housing assistance that was inappropriately paid from March 2012 through February 2014 for the 22 households.

Based on the Commission's records for the household files reviewed, the Commission was aware or should have been aware that the households no longer resided in an assisted unit. However, it did not recapture the overpaid housing assistance. According to the Commission's former deputy executive director, the Commission did not always recapture the housing assistance because its Section 8 program staff did not always provide the required document that instructed its finance department to recapture the inappropriately paid housing assistance.

Conclusion

The weaknesses described above occurred because the Commission lacked adequate procedures and controls to ensure that it complied with HUD's requirements. As a result, the Commission and HUD lacked assurance that applicants were properly selected to reside in an assisted unit in the projects. Further, the Commission overpaid nearly \$101,000 in housing assistance and received \$11,254 in program administrative fees for the 53 households that had left the program.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public and Indian Housing

- 1A. Determine whether the households residing in the projects' assisted units received housing in accordance with the program's requirements and if not, consider a referral to HUD's Office of Fair Housing and Equal Opportunity.

We also recommend that the Director of HUD's Detroit Office of Public and Indian Housing require the Commission to

- 1B. Maintain a waiting list or use its Section 8 waiting list to refer applicants to the owners of its remaining program projects to ensure that applicants are appropriately selected for housing.
- 1C. Reimburse HUD \$111,761 from non-Federal funds (\$100,507 for housing assistance payments + \$11,254 in associated administrative fees) for the overpayment of housing assistance cited in the finding.
- 1D. Implement adequate procedures and controls to ensure it appropriately (1) recaptures overpaid housing assistance from project owners and (2) verifies that households reside in the assisted units for its remaining Section 8 Moderate Rehabilitation Program projects.

Scope and Methodology

We performed our onsite audit work between January and May 2015 at the Commission's office located at 1301 East Jefferson Avenue, Detroit, MI. The audit covered the period July 1, 2012, through October 31, 2014, but was expanded as determined necessary.

To accomplish our objectives, we interviewed HUD program staff and the Commission's employees. In addition, we reviewed the following:

- Applicable laws and HUD's regulations at 24 CFR Parts 5, 882, 982.
- The Commission's policies and procedures; board meeting minutes for July 2012, through October 2014; annual audited financial statements for 2011, 2012, and 2013; accounting records; organizational chart; household files; housing assistance payments register; and housing assistance payments contract with the program projects' owner.
- The program projects' rent rolls from June 2013 through October 2014.

We randomly reviewed 29 of the 227 households in an assisted unit that received housing assistance from July, 1, 2012, through October 1, 2014, to determine whether the households were eligible to receive program assistance.

We reviewed HUD's Public and Indian Housing Information Center report to determine the termination date, if applicable, for the 227 households at the program projects that received program assistance through the Commission from July 1, 2012, through October 1, 2014. We compared the termination dates to the housing assistance payment register and rent rolls. We identified 47 households from the report and 6 households from the rent rolls, for a total of 53 households that may have inappropriately received housing assistance after they were terminated from the program or moved out of their assisted unit.

We relied in part on data maintained by the Commission. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes. We provided our review results and supporting schedules to the Director of HUD's Detroit Office of Public and Indian Housing and the Commission's executive director during the audit.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Commission lacked adequate procedures and controls to ensure that (1) it maintained a waiting list or used its Section 8 program waiting list to refer applicants to the projects' owner or management agent for housing, (2) the owner or management agent notified the Commission of overpaid housing assistance for households that were terminated from the program or moved out of an assisted unit, and (3) it recaptured overpaid housing assistance.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/
1C	\$111,761
Total	<u>\$111,761</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



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Detroit, Michigan 48207
313.877.8000
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Via Electronic Transmission

July 27, 2015

Kimberly Toler, Assistant Regional Inspector General for Audit
U.S. Dept. of HUD Office of Inspector General
200 N. High Street Room 334
Columbus, OH 43215

Subject: Detroit Housing commission Response to Colony/Fisher Audit Report

Dear Ms. Toler:

Recommendation 1A

No comment as this is directed to the Detroit Field Office.

Recommendation 1B

DHC agrees with this recommendation. DHC is maintaining the waiting list for each remaining Mod Rehabilitation (Mod Rehab) site and will appropriately use the option of referrals through a Tenant Selection Plan as needed and allowed under 24CFR 882.514c. DHC will develop and implement procedures acceptable to the Field Office to provide assurance in this regard and to improve the program operations.

Recommendation 1C

DHC agrees with this recommendation. DHC began its first level of reconciliation of payments to Colony/ Fisher in March of 2014 based on concerns with Colony/Fisher's lack of responsiveness to various program compliance requests. The first level reconciliation by DHC staff resulted in the recapture of \$151,526 for housing assistance that was inappropriately paid for 22 households. Due to a number of administrative concerns, some of which have been identified in this report, along with the sale of the property in December of 2014, DHC was unable to complete a reconciliation that would have resulted in the recapture of the funds identified by the Inspector General through recoupment of future housing assistance payments. DHC acknowledges that of the \$1.9 million paid from July 2012 through December 2014, \$111,761 should be returned from non-federal funds for overpayment of housing assistance.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

It should be noted that since the sale of the property, it no longer has a Mod Rehab contract managed by DHC. Since January, 2015, it has had a contract with HUD's Multi-Family Program.

DHC will work with the Field Office to close this finding.

Recommendation 1D

DHC agrees with this recommendation. The Executive Director recognized the need to obtain assistance to develop program compliance processes and procedures as a necessity to sustain DHC's recovery. DHC requested that HUD provide third-party technical assistance to develop program procedures for this area. Third-party technical assistance was needed to allow DHC staff adequate time to focus on day-to-day program operations. The deliverables of the technical assistance did not meet DHC's needs in this regard.

DHC's review of the Colony/Fisher project beginning in March of 2014 along with the Inspector General's on site review which began in January of 2015 has resulted in improved controls in this area. DHC has developed internal processes and taken the actions below to assist in eliminating overpayment of housing assistance payments.

- DHC has implemented a quality control process that requires comparison of the property rent rolls on a monthly basis -to a monthly Vendor Ledger generated through DHC's system record to ensure that families receiving housing assistance payments are documented on the property rent records. This review provides evidence of current occupied and vacant units.
- DHC is also monitoring the End of Participation/Move Out dates through (1) a monthly comparison of the property rent rolls to a DHC Vendor Ledger generated through DHC's system record and (2) examination of annual recertification activity to confirm the housing assistance payment is stopped and funds paid reconcile to actual client occupancy.
- DHC has established and is maintaining a Mod Rehab Waiting List. In February 2015, DHC's Board approved revisions to the Administrative Plan related to managing the Mod Rehab Waiting List.
- The Mod Rehab Waiting List remains open for applicants and all applicants are placed on the Waiting List by DHC.
- DHC is providing technical assistance to the properties on a monthly basis through regular status calls. The technical assistance includes the following areas: HQS Inspections, Abatements, Occupancy and Vacancies.

Auditee Comments and OIG's Evaluation

**Ref to OIG
Evaluation**

Auditee Comments

DHC will implement additional procedures acceptable to the Field Office to improve the program operations and close this finding.

Sincerely,


Kelley Lyons,
Executive Director

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OIG Evaluation of Auditee Comments

- Comment 1 The Commission stated that it was maintaining a waiting list for each of its Moderate Rehabilitation Program projects. We commend the Commission for taking the necessary steps to improve its operations and ensure compliance with HUD's requirements. The Commission should work with HUD to resolve the recommendations. In addition, the Commission should provide documentation to support its waiting list processes and actions to HUD to review for completeness and implementation of the processes.
- Comment 2 The Commission stated that it agreed that the funds questioned in recommendation 1C should be repaid from non-Federal funds. The Commission also stated that it would work with HUD to resolve the recommendation. We commend the Commission for taking the necessary steps to resolve the recommendation.
- Comment 3 The Commission stated that it agreed with recommendation 1D and had developed internal processes and taken actions to assist in eliminating overpayments of housing assistance. It also stated that it would implement additional procedures to improve its program. We commend the Commission for (1) developing quality control processes, (2) taking actions to assist in eliminating overpayments of housing assistance, and (3) agreeing to implement additional procedures to improve its program. The Commission should work with HUD to resolve the recommendations. In addition, the Commission should provide documentation to support its internal processes and actions to HUD to review for completeness and implementation of the processes.

Appendix C

Federal and Commission Requirements

Waiting List

Regulations at 24 CFR 882.513(b) state that the public housing agency must maintain a waiting list for applicants of the Moderate Rehabilitation Program. This requirement may be met through the use of waiting lists for other subsidized housing programs.

Regulations at 24 CFR 882.514(b) state that when vacancies occur, the public housing agency should refer to the owner one or more appropriate-size families on its waiting list. The agency must select families for program participation in accordance with the provisions of the program and the agency's application.

Section 1.4(a) of the Commission's housing assistance payments contract with the project owner states that the owner must select tenants for occupancy of vacant units from eligible families referred by the Commission.

Inappropriate Housing Assistance Payments

Regulations at 24 CFR 882.411(b)(1) state that if an eligible family vacates its unit, the owner may receive the housing assistance payments for the month in which the family vacates the unit.

Section 1.5(f)(1)(ii)(a) of the Commission's housing assistance payments contract with the projects' owner states that the owner agrees that the endorsement on the check would be a certification by the owner that contract units would be leased to an eligible family.

Section 1.5(f)(2)(i) of the Commission's housing assistance payments contract with the projects' owner states that if the Commission determines that the owner is not entitled to the payment or any part of it, the Commission or HUD, in addition to other remedies, may deduct the amount of the overpayment from any other amounts due to the owner.

Section 1.5(f)(2)(ii) of the Commission's housing assistance payments contract with the project owner states that the owner must notify the Commission promptly of any change of circumstances that would affect the amount of the monthly payment and will return any payment that does not conform to the changed circumstances.